

Industrial District Master Agreement



Council Presentation
August 27, 2024



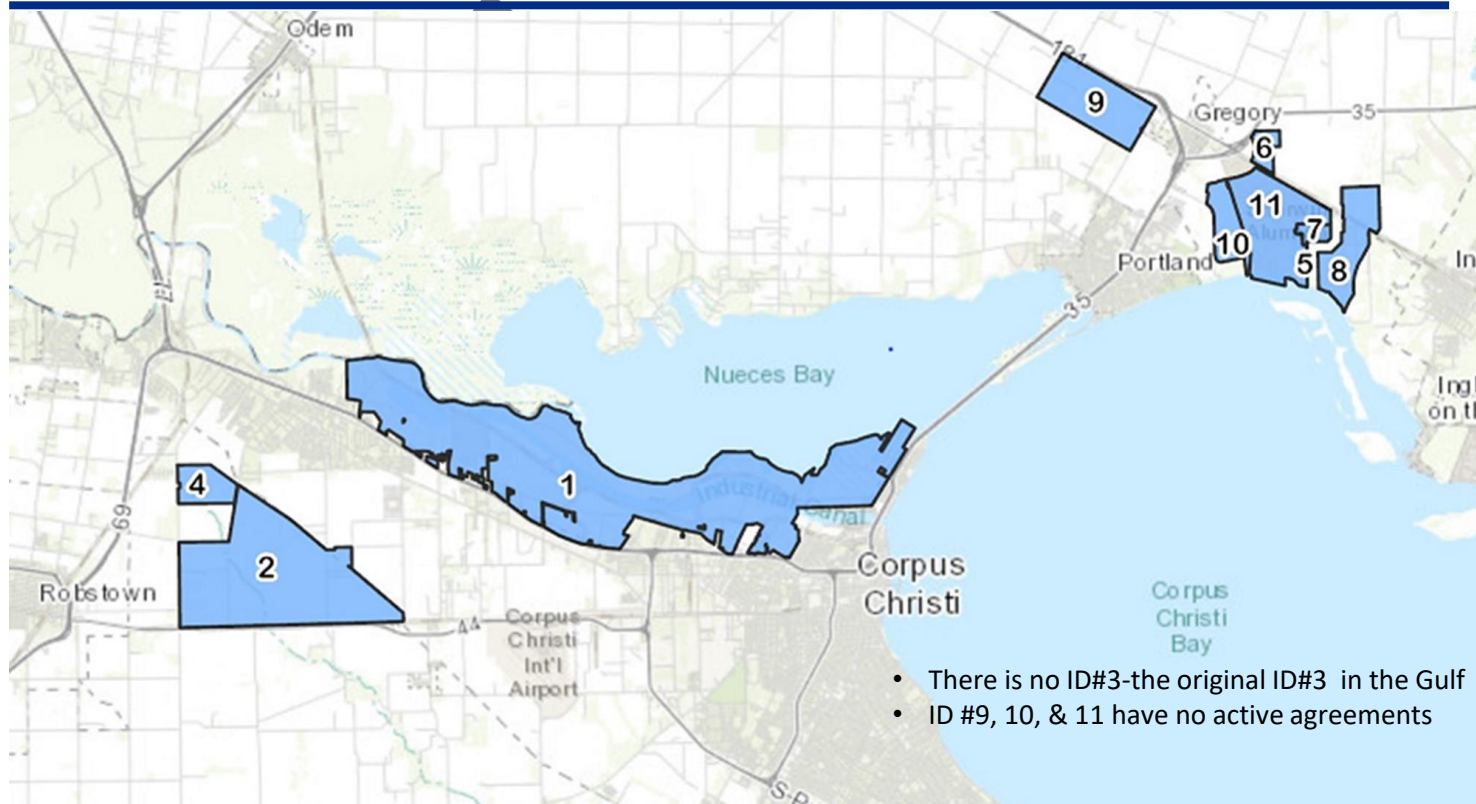
What is an Industrial District?

State law allows for industry to make a payment to Cities in lieu of annexation into the city limits

- Designate geographic districts in the ETJ
- City services and regulations are not extended into those districts
- Districts encourage economic stability and growth of the City by encouraging the location, retention, and expansion of Industry



Location of Industrial Districts





Industrial District History

City has a 40-year history with Industrial Districts

- Currently have 10 designated districts in both Nueces and San Patricio County
 - City's practice is to negotiate a single master agreement for all industries within the designated districts
 - Current 10-year industrial district agreements expire on 12/31/24
 - New 15-year master agreement will be effective on 1/1/25
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Initial Negotiation Position

- Ensure the City is protected if there are legislation changes that would prohibit the City from annexing companies in the Industrial Districts
 - Increase the PILOT from 62.5% to at least 73.4% for existing improvements to position the City in the middle of the comparative cities
 - Increase the PILOT from 0% to 73.4% for Business Personal Property (BPP) to make the City's IDA's consistent with other comparative cities
 - Ensure Backflow prevention is required for all industries as part of the IDA.
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Negotiation Structure

City negotiating team began meeting in Summer of 2023

- City Manager
 - City Attorney
 - Assistant City Manager
 - Chief Financial Officer
 - Assistant City Attorney
 - Director-Intergovernmental Relations
 - Assistant to the City Manager
 - Assistant Budget Director
 - Administrative Support
 - Hugh Landrum (Hugh L Landrum & Associates)
 - Mike Culbertson (CCREDC)
 - Matt Garcia (TXOGA)
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Negotiation Structure

- **December 8, 2023**-First meeting with Industry representatives where calendar and process was discussed
 - **January 18, 2024**-City introduced proposed agreement terms
 - **February 1, 2024**-Received feed back from Industry partners on proposed terms
 - **February 20, 2024**-City distributes proposed draft agreement to Industry partners
 - **April 11, 2024**-Response to proposed agreement received from large industry group
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Negotiation Structure

- **May 22, 2024**-Agreed to move from the larger negotiation group to smaller negotiation teams. Agreed to meet every Thursday until the master agreement is finalized. Agreed to key negotiation points:
 - PILOT percentages
 - Business Personal Property and exemptions
 - TCEQ exemption
 - Voluntary Annexation Petition
 - Backflow Prevention
 - Term
 - Fair Pay concept



Negotiation Structure

- **June-August**
 - Met a total of 6 times in person and 5 times virtually
 - Updated City Council in executive session at each City Council meeting during this time
 - Successfully negotiated all major contract aspects



Agreement Comparison

Contract Provision	Current Contract	Proposed Contract
PILOT-Land	100%	100%
PILOT-New Improvements (Year 1-4 after the improvement is put in service)	0%	0%
PILOT-Existing Improvements (Beginning year 5 after the improvement is put in service)	62.5%	74.5%
PILOT-TCEQ Pollution Control Exempt Improvements	62.5%	0%
Annexation	Involuntary Annex if there was a company default	Signed voluntary annexation petition included with new contract. Will be accepted by City if: <ol style="list-style-type: none"> 1. IDA land owner defaults 2. Texas legislature approves bill that will result in the prohibition of annexation. If annexation occurs for this reason, the 380 rebate agreement will be activated.



Agreement Comparison

Contract Provision	Current Contract	Proposed Contract
Term	10 year	15 year
Alternative Estimated PILOT (Fair Pay)	None	If the company files a lawsuit related to value and the CAD total cumulative value exceeds prior tax year by 20%, the company may pay an alternative estimated PILOT of the greater of the company determined market value or 120% of the prior tax year PILOT. Final payment will be the same as under the prior agreement.
Backflow Requirements	None	Company must install backflow/airgap in accordance with City Plumbing Code but the City may consider alternatives per the process defined in the new agreement.



Bottom Line Summary

- Land PILOT remains at 100%
- Existing Improvement's PILOT increased 19% to 74.5%
 - Projected to generate approximately \$5.0M in additional revenue for the City beginning in tax year 2025
 - PILOT for companies without fire coverage will be 89.5%
- Every agreement will have a signed voluntary annexation petition that can be accepted if the company defaults or if there is any legislative change that would prevent the City from annexing in the future.



Next Steps

- Today-First reading of the ordinance for the new Industrial District Master Agreement
- September 3-Second reading and adoption of the ordinance
- Once adopted, Staff will work with Industrial Partners to execute the new Industrial District Master Agreements which will be effective January 1, 2025